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VIA HAND DELIVERY

Office of the Secretary
Surface Transportation Board
Case Control Unit
Attention: STB Ex Parte No. 582
1925 K Street, N.W.
Washington, D.C. 20423

ENTERED
Office of the Secretary
FEB 29 2000
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Public Record

Re: **Ex Parte No. 582, "Public Views on Major Rail Consolidations"**

Dear Secretary Williams:

Enclosed are an original and ten (10) copies of the prepared statement of John W. Snow, Chairman and Chief Executive Officer of CSX Corporation and CSX Transportation, Inc., for filing in the above-referenced docket.

Please note that a 3.5-inch diskette containing a WordPerfect formatted copy (readable in or convertible into version 7.0) of the filing is also enclosed.

Pursuant to the special instructions set forth in one of the Board's Decisions served February 17, 2000, this covering letter and Mr. Snow's statement are paginated consecutively from page 1 of this letter. In addition, the original of this submission has been left unstapled and unbound.

Kindly date-stamp the enclosed additional copy of this filing and return it to our messenger.

Thank you for your assistance in this matter. Please contact me if you have any questions.

Respectfully yours,

Dennis G. Lyons
Counsel for CSX Corporation and CSX Transportation, Inc.

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Enclosures

REMARKS
OF
JOHN W. SNOW

CHAIRMAN AND CEO, CSX CORPORATION AND CSX TRANSPORTATION, INC.

Public Views on Major Rail Consolidations
Surface Transportation Board – Ex Parte No. 582

I want to thank the Board for convening this proceeding, and also for its decision to consider not only the proposed consolidation before you but the downstream effects as well. It is clear that the proposed transaction that prompted the convening of this session is a watershed event, and how it is treated will determine the future of our rail industry.

CSX, along with the other major railroads represented here today, have made it clear that the CN/BNSF combination is an ill-timed proposal. The transaction, in and of itself, is troubling, but this hearing is wisely focused on the broader issues. I am deeply concerned about the present state of the rail industry. Our industry is plagued with instability today, and I firmly believe that this transaction will very much add to that instability. Even the threat of it has already been destabilizing. One only has to look at the stock quotes for railroads since the CN/BNSF announcement or read what the leading Wall Street analysts have written – that this transaction will lead to other transactions, that re-regulation will follow, and that the financial markets now distrust mergers – to understand what this merger means to the financial health and future of the rail market. And those fears are echoed among our shippers, by public officials, and worst, by our very own employees. That means that even the prospect of this transaction will cripple our efforts to rebuild our railroads and destroy our ability to raise necessary funds to keep this industry healthy.

Part of the concern about our industry comes from the problems that have occurred in connection with recent mergers. Unfortunately, much-publicized rail congestion and delays resulting from both eastern and western rail mergers – in which I include my own railroad – have shaken customer confidence. In our case, the difficulties of integrating our share of Conrail's system into our network serve as a prime example that extensive planning and significant capital spending do not guarantee instant success. While we planned extensively, as did our competition, Norfolk Southern, we fell short of our goals. Some of the problems were unexpected as shippers made decisions to route traffic in ways that we simply failed to anticipate. Regrettably, many of the service problems were of our own doing. For this, I am truly sorry. I say this to the Board and the many fine shippers who in all likelihood will tell you about these problems. Unfortunately, at this time even without some of these problems, there might still be sentiment to re-regulate the railroads if further mergers occur. The bloom of mergers seems to have somewhat faded across many industries. But whatever the cause, it is the shipper who has suffered. And the questions for the shipping community, and for the future of the rail industry as a whole, are ... what is the correct course ... what is in the "public interest" ... what "minimizes the need for federal regulatory control" ... what promotes a "sound" system?

The Board will recognize those questions as echoing the policy of Congress set down in the statute that the Board enforces and administers.

We need to fix the industry and I question whether this transaction will help to fix it or will it harm it. I believe it will harm it even though I have great respect for the two gentlemen who are proposing it. What the industry now needs is a period of time to focus on resolving merger-related issues, and on effectively bringing these most recent mergers to a successful conclusion, I have no doubt we will, but it will take time, and we need that focus.

My number one priority has been to focus on our rail system, to fix it, and to deliver on the promises we made to you and the shippers many months ago. I have been spending a lot of time in Jacksonville and in the field, watching, listening and leading our recovery efforts. Our management and labor teams have been working extremely hard and there has been some progress. There are still real problems, but we are working to solve them.

What is of great concern is that these dedicated employees, who are so critical to the needed improvement, are becoming distracted. Their concern and focus is shifting away from working to correct and fix the railroad to concern about this latest proposal. They worry about their future. Will there be another round of mergers? Who will be my next boss? What is happening to the value of my stock that I was planning to use for my kids' education. Will all my hard work be for naught if this industry is re-regulated? Frankly, what is the future of the industry? We are beginning to lose some of our young and good people. People are working hard, but they are not taking risks that are necessary because they don't want to stand out in this time of uncertainty.

We have talked about Wall Street. I also have spent time there and talked to institutional shareholders and analysts. It is a humbling experience. Fears of more mergers and re-regulation have driven investors away from rail stocks. We need to worry that low stock prices will encourage a hostile tender offer from an entity not involved in railroading. Such a takeover could take place rapidly without intervention from this Board and most likely without raising issues under the antitrust laws. However well-intentioned such an offer might be, it would destabilize the industry.

In my mind, Wall Street has spoken on the issue of rail mergers now, and about the CN/BNSF deal. It doesn't like them. This means that we need to worry about our ability to raise capital, as share prices fall to new lows, and as merger problems result in weaker balance sheets. Overcoming service problems takes money, and even those railroads that have substantially worked their way out of their post-merger difficulties have done so at substantial cost, and this has depressed earnings and stock values. Service problems have driven shippers from the industry and lowered revenues. And the prospect of more consolidation has driven share values even lower and shaken Wall Street's confidence in our industry. We've been told that even if our current earnings return to normal, the merger "cloud" will keep share prices down. The market capitalization of the two large eastern railroads is less than half of what it was in June of 1999. Indeed, the market capitalization of all United States-based Class #1 freight railroads hovers at less than half of that of a single shipper, UPS. In some ways, that's a tribute to UPS, but mostly it's a sad commentary on the state of the rail industry.

I have been admonished by counsel always to be cautious in my comments about further consolidations; it's part of our policy. I do not have a crystal ball, but history suggests that one transaction will lead to others, and that regardless of their desires, carriers will be forced into mergers by circumstances that may well be beyond their control. Wall Street seems to think that, and many shippers also echo those views and express deep concerns about future mergers.

If there should be mergers now, and should those mergers include weakened carriers, shippers will argue the need for greater government supervision and regulation. This would lead to the further destabilization of the rail industry and the substitution of regulatory pricing for the free market pricing which has benefited shippers and carriers alike since passage of the Staggers Act. In the CN/BNSF case, we have already heard some shippers promote huge regulatory changes from the industry as the price it should pay for consolidations.

We need stability, and this or any other transaction at this time, will only add to the current instability. It will keep our dedicated employees from doing what they need to do ... fixing the railroad. It will frustrate our ability to restore service and shipper confidence and to bring more freight to rails. It will keep us from shedding the tens of millions of dollars of extra costs that have crept into our systems because of merger problems. We will not be able to fix the serious earnings problems that plague us and restore investor confidence. Wall Street has spoken about this merger in the most pointed way – by driving share prices down.

Putting the industry on a stronger financial footing is essential if we are going to be in a position to make the capital infusions necessary to give shippers what they need and demand.

We can make this a healthy and vibrant industry again. CSX will deliver on the promises that we made for our merger. Rail is a wonderful way to move freight, and CSX has a great system. I promise you that, but we need to keep our employees focused, restore shipper confidence, and restore investor confidence. And I don't see how we can do that if we have this merger to confront at this time. There are alternatives to mergers ... cooperative ventures and alliances ... that are far less drastic and can be quite beneficial. The industry is distracted from exploring them now. Before we take the giant step of a CN/BNSF merger, we should look at those less drastic steps ... and before we decide to take any giant step, we should finish what we have started, learn the lessons of our mistakes, and only then proceed.

The Board can take encouragement in the way it is proceeding in this matter from a speech delivered by Robert Pitofsky, Chairman of the Federal Trade Commission, on February 17 – after this Board had broken new ground in this case, and perhaps influenced by this Board. Chairman Pitofsky said that in passing on mergers, the FTC's "responsibility is not just to examine the merits of a particular transaction, but to take into account where the industry, as a result of similar transactions, might be going." The Board's Decision No. 1 in the CN/BNSF case and its launch of these proceedings reflect that wise approach.

So, the real question before this body is, would approval and consummation of the CN/BNSF transaction, or any other transaction at this time, cause even greater destabilization of an already fragile industry? My view is yes. The authorization of a destabilizing transaction, and the encouragement of additional destabilizing transactions, would not be in the public interest.

Collectively, we owe it to our customers, our employees, our shareholders and the public to get this one right. I again want to commend the Board for setting the ground rules for the debate and for taking into account the potential wide-ranging implications of the proposed transaction and placing it in the wider context of the future structure of America's rail industry.

I would prefer to stay here for this whole proceeding, but I believe I need to go back to continue the process of fixing the railroad. I will review the shipper comments and, of course, I take them seriously.

Thank you.

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Mr. Snow has been involved in the railroad industry for over three decades. After some years in private law practice, centering on the legal problems of shortline railroads, he served in the Ford Administration as Assistant Secretary of Transportation for Governmental Affairs (1974-1975), Deputy Undersecretary of Transportation (1975-1976), and Administrator of the National Highway Traffic Safety Administration (1976-1977). He was heavily involved in the original efforts to deregulate the railroad industry, which began with the Railroad Revitalization and Regulatory Reform Act of 1976 ("4R's Act"), and later culminated with the passage of the Staggers Rail Act of 1980. He joined a predecessor company of CSX, Chessie System, in 1977; upon the merger of Chessie and the Seaboard Coast Line in 1980, he became Senior Vice President. He became President of CSX Transportation, Inc. in 1987; he became President and Chief Operating Officer of that company in 1988; and he was elected President and Chief Executive Officer of CSX Corporation in 1989, taking on the additional duties of Chairman of the Board in 1991.